

DATE: MARCH 24, 2003

TO: PASADENA COMMUNITY DEVELOPMENT COMMISSION

FROM: CYNTHIA J. KURTZ, CHIEF EXECUTIVE OFFICER

**SUBJECT: HERITAGE SQUARE AFFORDABLE SENIOR HOUSING
COMPLEX AT 730-790 N. FAIR OAKS AVENUE; AMENDMENT
AGREEMENT TO DISPOSITION AND DEVELOPMENT
AGREEMENT WITH PASADENA HOUSING INVESTORS, L. P.**

RECOMMENDATION:

It is recommended that the Pasadena Community Development Commission (“Commission”) adopt a resolution:

1. Approving the terms and condition of the Amendment Agreement to Disposition and Development Agreement No. CDC-439 between the Commission and Pasadena Housing Investors, L. P. (“Developer”);
2. Approving a journal voucher appropriating an amount not to exceed \$2 million from the Commission’s Housing Opportunities Fund to the Heritage Square project account to provide additional loan assistance to Developer for the development of the proposed Heritage Square affordable senior housing complex located at 730-790 N. Fair Oaks Avenue and the relocation/preservation of the historic “Decker House” for reuse as two (2) affordable housing units (the “Development”); and
3. Authorizing and directing the Chief Executive Officer of the Commission to execute, and the Secretary to attest the Amendment Agreement, and to take any actions necessary to implement the Amendment Agreement.

ADVISORY BODY RECOMMENDATIONS:

Community Development Committee -- The subject recommendation was approved unanimously at its special meeting on Tuesday, March 18, 2003.

Northwest Commission/Fair Oaks Project Area Committee/Lincoln Avenue Project Area Committee -- The subject was considered at a special joint meeting on Thursday, March 20, 2003. The action taken on this item will be reported orally to the Commission.

BACKGROUND:

On March 12, 2001 the Pasadena Community Development Commission ("Commission") approved the terms and conditions of Disposition and Development Agreement No. CDC-439 (the "DDA") with Pasadena Housing Investors, L. P. ("Developer") in connection with the proposed Heritage Square affordable senior housing complex located at 730-790 N. Fair Oaks Avenue (the "Development"). The proposed development is located within the Fair Oaks/Orange Grove Specific Plan District. The key terms and conditions of the DDA provide for, among other things, Commission loan assistance totaling \$2.9 million and a "Closing Date" of November 1, 2002 by which date the Developer shall secure all necessary financing and acquire all properties comprising the Development site.

Despite Developer's due diligence to secure site control, protracted negotiations with the owners of the subject properties precluded the Development from proceeding within the specified time frame. Furthermore, the Development's concept design could not be approved until adoption of the Specific Plan Ordinance and enactment of the applicable zoning entitlement. This condition would not be met until November 18, 2002 when the City's Zoning Code was amended to establish the provisions of the Fair Oaks/Orange Grove Specific Plan.

On February 10, 2003 the Developer, having secured site control of six (6) of the eight (8) Development site properties, submitted a written request that the Commission increase its loan commitment by \$2 million. This amount represents the Development's financing gap that would need to be filled if the Developer is to submit a competitive application for state tax credit financing by the March 26, 2003 deadline. When the DDA was approved in March 2001, the financing gap was \$1,076,000 million, which was scheduled to be met with other financing sources. The \$924,000 increase in the financing gap is attributed largely to the escalation of the Developer's property acquisition costs over the past two years. The current financing gap amount was confirmed after analysis of the Development's cost budget and operating proforma by the Commission's financial consultant, Keyser Marston Associates, Inc. Keyser Marston Associates also indicated the possibility that the Developer may secure approximately \$1.5 million from other sources, thereby reducing the Commission's proposed loan commitment to \$500,000.

Staff have negotiated the terms and conditions of an Amendment Agreement to the DDA which would, among other things; a) require the Developer to secure site control of the Development site by March 26, 2003; b) revise the Development budget; c) provide an increase in the Commission's loan commitment for an amount not to exceed \$2 million which is subject to reduction based on the Developer's obtainment of alternate financing; and d) extend the effective term of the DDA through December 1, 2003 by which date the Developer shall secure all necessary financing and acquire all properties comprising the Development site. Developer and staff have reached concurrence on the proposed key terms and conditions of the Amendment Agreement, as set forth in Exhibit "A".

DEVELOPMENT STATUS:

Developer has entered into binding purchase options on six (6) properties. Negotiations have concluded on the remaining two (2) properties for which purchase option agreements are expected to be executed by March 26, 2003.

In February 2003 the Developer was awarded \$737,000 in loan assistance from the Los Angeles County "City of Industry" program. On March 26, 2003 the Developer will submit an application to the state for tax credit financing totaling approximately \$9.3 million. Furthermore, during the coming months, the Developer will diligently pursue and apply for financing from non-tax credit sources including the Federal Home Loan Bank "Affordable Housing Program", additional assistance from the County of Los Angeles, and state "Proposition 46" program funds. Any amount of financing secured by the Developer from such non-tax credit sources shall reduce the Commission's \$4.9 million loan commitment commensurately.

The Design Review Commission is scheduled on March 24, 2003 to consider the Development's concept plans.

HOUSING IMPACT:

Approval of the subject recommendation and completion of the Development will result in the addition to the city's housing inventory of 104 rental dwelling units affordable to very low- and low-income senior households, and the preservation of the historic "Decker House" for reuse as two (2) affordable housing units for low- and/or moderate income families. In addition, the Development will mitigate existing blighting conditions within the Fair Oaks Redevelopment Project Area and Fair Oaks/Orange Grove Specific Plan.

FISCAL IMPACT:

Approval of the subject recommendation will increase the Commission's loan commitment to the Developer by \$2 million for a total of \$4.9 million. Of this total, \$4.5 million shall be utilized to assist the Heritage Square development and \$400,000 for the Decker House project. The recommended \$2 million increase in loan funds shall be drawn from the Commission's Housing Opportunities Fund, which is projected to have a beginning balance for FY 2003-2004 in the amount of \$8,466,788. The Commission funding sources for the total \$4.9 loan commitment consists of Housing Trust Funds (\$2.4M), HOME funds (\$1.5M), and Fannie Mae American Communities Funds (\$1M).

The repayment terms for the Commission's \$4.9 million loan commitment are as follows:

Heritage Square \$4.5 million Loan

Amortized Portion (\$1M) -- 40-year term; 3% interest rate; annual amortized payments beginning in seventh year.

Residual Receipts Portion (\$3.5M) -- 40-year term; 5% interest rate; annual payments based upon availability of project residual receipts.

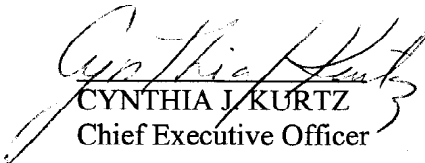
Decker House \$400,000 Loan

Amortized -- 40-year term; 3% interest rate; monthly amortized payments.

The Commission's total subsidy for the 106 affordable units to be developed pursuant to the amended DDA would be \$4,987,300 or \$47,050 per unit as shown:

\$2,900,000	Commission assistance per existing DDA
87,300	Principal/interest reduction on loans to Atlantic/Pacific Development Co. per existing DDA
<u>2,000,000</u>	Additional Commission assistance per amended DDA
\$4,987,300	Total Commission loan assistance (\$47,050 per unit)

Respectfully submitted,


CYNTHIA J. KURTZ
Chief Executive Officer

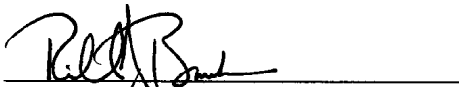
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